

Brunello Cucinelli S.p.A.
"First Quarter 2024 Conference Call"
Wednesday, April 17, 2024, 18:00 CET

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OPERATOR:

Good afternoon and welcome to the Presentation of Revenues for the First Quarter of 2024 of Casa di Moda Brunello Cucinelli. Speakers tonight are Mr. Brunello Cucinelli, Executive Chairman and Creative Director; Riccardo Stefanelli, CEO; Dario Pipitone, CFO; Moreno Ciarapica, Co-CFO Senior; and Pietro Arnaboldi, Investor Relations and Corporate Planning Director. If you need assistance from an operator during the conference call, please press "*", "0."

Let me now give the floor to Mr. Brunello Cucinelli, please.

BRUNELLO CUCINELLI: Thank you. Good afternoon, and thanks to Ana Maria, who's going to translate my presentation tonight, I hope I will be speaking slow enough for you to translate properly.

So, thank you, all investors, analysts, and journalists, it's always a pleasure to hear you, and the last time was about 1 month ago. We are here in Solomeo, all of us with the exception of Luca, who this morning after the Board Meeting, moved to Turkey, where we have an event tonight. So I am replacing him. Actually, I was supposed to be traveling around. I just came back last night and I'm going back to London again tomorrow morning, but I'm here with you tonight.

So how would you like this happen tonight? So first, I'll read the data on the sales of the first quarter that are very, very good. We'll discuss them later. Then I'll give you an overall summary view of the market, which we have widely discussed about 1 month ago at the March call time, then we're going to give you a summary on the 2024 forecasts that are pretty concrete at this stage. Then we will like to talk about a few very important things the great extension of the Solomeo factory between 2024 and 2025. I'd like to discuss the factory work has conditions and the quality of life in our factories and the quality of life of the people working for us.

Then I'd like to discuss the value of the products, which we call contemporary products and then an important part of our discussion tonight should be dedicated to what we call exclusive and absolute luxury, which is the key issue for us. And I'd like to share with you why we decided to call it a gentle luxury.

So I'll now give you some data. Net revenues stand at €309 million, with a very important growth plus 16.5% at current exchange rates and 17.9% at constant exchange rates. Excellent results in all geographical areas and distribution channels. We feel high value perceived around the image of our brand, an expression of exclusivity, rarity, and also lifestyle and high-end Italian-based craftsmanship.

Revenues by geographical area are the following: Americas plus 19.5%, Europe plus 13.9%, Asia, plus 16%. Sales by distribution channels, retail plus 15%; wholesale plus 19%. We confirm the estimate of nice revenue growth in the region of plus 10% for 2024. And we believe we will also make a healthy and fair profit.

Last month, at a wonderful event in Rome, we presented the first national and international campaign on our first eyewear collection designed in partnership with the esteemed EssilorLuxottica house and we started the distribution of this collection in our stores and in high-end specialized eyewear segment including prescription glasses too.

Let me now read my quote for today, the value of exclusivity, rarity and creativity in gentle luxury. The value of Artisan manual work. The first quarter of this year has completed with excellent sales results that described very well the appreciation towards our collection and lifestyle throughout the world.

The excellent order collection for the collections for the fall/winter 2024 for both men and women and a very positive series of comments from the international press, which you know, is very important, of course, and large multi-brand stores about our gentle luxury style lead us to repeat once again, our expectations for the whole 12 months of 2024.

We expect revenues growth around 10% and a healthy and fair profit. We are really confident that the quest for beautiful, well-made, exclusive and rare products will continue over time. That's acknowledging the very high value of manual and artisan work.

I also added a couple of comments that I'm happy to share with you. I would like to close this economic document with a very quick humanistic comment. Recently day-in, day-out for a time that appears to be too long now, mankind witnesses in amazement at more than one conflict, which is so unexpected between human people, between sisters and brothers. But I'm sure that common sense and universal harmony will once again be back to drive all the actions of those who have the responsibility to reach shared destiny which should be potentially rich in happiness. So inspired by my Master Pythagoras, my wish is that creation will help us in waking up everywhere in the world. So for our children and grandchildren, we really hope this is going to happen for real.

Now, let me come to economic performance. For 2024, I would like to summarize in general, our thinking and our ideas about the current year. So the revenues of the first quarter are excellent as expected. And actually, I'm sure you remember that the summer 2024 collection, which was presented in between July and September last year, had gathered very enthusiastic comments. The order collection for the fall/winter collection was completed in March during the men and women campaign, and it was

excellent. The judgment of the international and national press and the collections, which, as I said, is extremely important, just like the multi-brand store judgment was also excellent.

So we confirm totally, as we said 2 month ago, the judgment on the global luxury market on our absolute and exclusive luxury take. And we confirm we are distributing our products in a well-balanced way globally as Luca explained a month ago.

So speaking of the markets, again, we would like to confirm that the content of individual regions, as Luca pointed out, is well balanced, and the demand for a beautiful, elegant, young and exclusive ready-to-wear that can actually be inherited and handed over from generation to generation is recording a very interesting performance in all major markets. Asia is doing very well in all its territories, from China, Korea and Japan and its very consistent over time. The America is doing really, really well, too. And last but not least, a great robustness in the European business, as we noted.

Let me talk about prices. You know that for the fall/winter collection, we increased between 1% and 2%. Our price comparison globally, you know that if Europe is 100, the US stands at 120 and Asia at 128. So this is our proportion. An interesting thing is that last week, we organized it in Milano with some very important Italian multi-brand stores because we wanted to understand their opinion, you know, they always have a feel of the market.

So we discussed a lot of major issues, including the contemporary looks of the brands and the value of exclusiveness and rarity of products. We also discussed the theme of policy and the importance of being very punctual in deliveries. And so, we actually devoted a lot of attention to the fact that the big issue of price increases is something that receives a lot of attention and care. And many people actually ended up saying, many end-users, many

end buyers say that these prices are not justified. So this is something we tend to hear more and more frequently.

So let's look at the fundamental forecast for 2024. We confirm we expect revenues to grow by about 10%. We expect EBIT to increase by 10 basis points to 20 basis points. So it should stand around 16.6% to 16.7%. Net profit is expected about 10% as expected. CAPEX is expected to stay at 8% to 8.5% plus 1, which we postponed from 2023 for one property investment. Investment in image, events, and meetings in the Casa Cucinelli are expected to stand at about 7%, just like in the last few years.

So we also imagine the inventory to be better balanced. It was a bit too low in 2023. Net financial position is healthy. And dividends will be pretty normal as expected in the last few years, with the exception of 2020, of course, with the big COVID crisis for everyone. So for 2024, we confirm a very...even more positive attitude than originally expected.

Let me speak of 2025. You know everything about our plans for 2025, where we imagine to grow around 10% again in our revenues and to obtain a fair and healthy profit, which is about 10%. So as Pythagoras says, 10 is 10 for us. So you're all familiar with our view of the company by 2030 where we imagine we will double revenues, which means we will keep growing in the region of 8% or 9%, 10% every single year between today and 2030. So we imagine that intent will have healthy growth, healthy profits.

We do not want to lose exclusivity at all. This is going to stay like rarity, image and styles that are always difficult to conserve with contemporary product. So in the end, between today and 2030, we aim at protecting the Brunello Cucinelli brand. And hopefully, we can always consider it as a luxury expression...gentle luxury again.

So what are the main topics that we hold here? We would like to summarize it in the last 3 or 4 minutes. You know everything about the working conditions for blue-collar workers and white-collar workers, but we're going to talk about factory workers, blue-collar workers only today, because I think this is the most important. You are very familiar with everything we think about this thing.

So we succeeded and we actually successfully gave some mobility to the term of the factory worker. The operaio we've been working for 40 years on this without actually improving it. But we finally added 2 terms, which we're very happy with, which is gold or platinum factory worker. Now let me explain this better.

So, when we hire factory workers, we hired them at Level 5, which is the maximum as per contract. But once you start, you may become a factory worker qualified as gold or a factory worker clarified as...qualified as platinum. So we believe that if a factory worker is in late-20s, someone who is pretty familiar with his trade and so on. They may want to become a factory worker at Cucinelli, because they can aim at becoming gold or platinum factory workers.

Now, we're going to share this idea at the AGM on March...on May 10. Now Moreno, Riccardo, I'm sure that you all agree with me in saying this is more gratifying for factory workers. Now another very important topic for us is the place of work itself. We want our factories to be beautiful, well cared, full of windows, especially at the production places. You know that people said in the past that factory works don't need to be able to look at site, because they waste their time and become distracted.

We seem to be used to thinking that looking at the window and looking at the sky, the waste of time. But actually, if you do have a window, you can actually look outside for 100 times without really wasting too much time, because in the end, we think that some jobs, well, we seem to be happy to let other people children do them. So that means that we need a savvy hand with savvy works.

And so you heard us discuss this topics many, many times already. But since we don't have many data to report today, we would like to share these ideas with you too. Now the salaries of our workers is another important thing for us. We always wanted our salaries to be slightly better. We've realized that if we take about 1% of our profit and invest them in factory workers salaries, this actually changes the people's life. And so, they improved their creativity, responsibility, the happiness of working.

Well, you think people are happy to work. Well, you know, we work 8 hours a day, plus some commuting time. So it takes a lot of time from our daily lives. So we need our job to bring us joy as well. We need people to understand they work for some healthy purpose that their work improved the quality of life of many people around them. So this is what we want to do.

And another very important topic for us is the exclusive absolute luxury. I'd like to dwell on this for a few minutes now. In the century old history of luxury, luxury has never been described with objectives. I mean, 2,000 years ago, Emperor Hadrian discussed luxury, but it was kind of an absolute description. Can't describe luxury as the symbol of moral good. So when I started this work with Cashmere and even later up until maybe 20 or 25 years ago, we used a few expressions to describe luxury.

In what sector do you work? In what bracket are you? I'm in the medium bracket. I'm in the medium to high end. I'm in the very high end of the market. And so, I do not want to repeat myself. But clearly, we do high fashion. So we are in the high end of the market. And then people started talking about absolute aspirational, accessible luxury.

And so, for the first time, when I involved with Loro Piana with my dear friend Loro Piana, we were at a conference, one of the very first conferences in Milan dealing with luxury and there's a person who may know...knew. And he said, "Well, I am...I was in the luxury sector. Well, I have a factory in Umbria, and we manufacture pullovers and we sell them for €25, €30." And Loro Piana said, but what kind of luxury is that? So I still do not understand what this accessible luxury actually means.

Well, seriously, we discussed this very often. I think that every single human being independently of his or her economic situation, where all human beings always want to achieve something, aim at something. And this applies to everyone regardless of the economic conditions that they have. Otherwise, I wouldn't have buried the green trousers that my mother obliged me to wear. So we are going to make a couple of reflections on luxury.

So, we will be patient. We have 10 minutes more so we can have a quite a long conversation. So would you be ready to buy something which is too much widespread? I wouldn't. Would you be ready to buy a brand which may...which manufactures a beautiful watch, well Vacheron Constantin for €30,000 and a bracelet for €100 from the same brand? I wouldn't.

Would you be ready to buy a beautiful car, a very expensive car, I don't know \$300,000 and the same brand manufacturers another car for \$35,000? I wouldn't. Or would you be ready to buy something, which is a

widely...widespread, but also very expensive? I wouldn't. Would you buy something if you know that the person, that company earned too much? No, I wouldn't, because so is the human being. And since...for ages since Pythagoras and others, we've always been like that.

And let me go on. Would you be ready to buy many things from the same brand, even though everything is beautiful? Well, I wouldn't. In my garage, I have 5 beautiful cars, but they're not all the same. I have a beautiful Bentley, Rolls, a Range Rover, Jaguar, a beautiful Porsche. But I wouldn't replace my 5 beautiful cars with 5 cars of the same brand. I wouldn't, definitely not.

So diversity is a great principle. It is curiosity. It's knowledge. If you have a brand which has been in the medium, high end of the market as we used to say, I don't think this brand has no chance to become unique or special. And well, you know, Vacheron Constantin will celebrate the 180th anniversary. I talked with their managers and we also made a video. But here, you find the great value of research that leads to the multi-brand approach. Where you know I would like one day to invite 25 brands for an event. I will organize this event myself.

So this is our idea of luxury. Luxury must be something beautiful, well-made exclusive and rare for all product categories, so also for eyewear and fragrances, we do have the same positioning, and by the way, we were informed and I'm very happy about this. So we were informed that with the women's fragrance, we are in the short list of the best fragrances. And I'm happy because we spent 3 years working on this fragrance. And Luca had to convince the fragrance expert, he is just 79. And well he insisted on saying that this fragrance was not okay because 25, 30 year old women would say this is not the right fragrance.

But well, you know...so also for eyewear and fragrances we had the very same positioning the basic at \$229. And then...another important thing, we never use the expression with client. For us, customers are all the same. It may sound strange, but I think that if we want to survive 50 or 100 years, we should take this approach. So I do not expect from us to manufacture items with an enterprise of €100 or €200 a bracelet or pull over. We want to be pricey...a high-priced brand, but not an expensive brand. So pricey means that you have the fair, you've defined the fair price.

And then a minute on products, which is the most important thing. As we say, we have to be creative, refined, fresh, young, we have to combine special colors, so a special pinstripe. And so, we manufacture pullovers that cost €10,000 and you need 60 hours to work on them and visual merchandising has to be beautiful, especially for menswear, you know, we often go to the stores and we need people to give us some advice. And well sales assistance have to be advisers. They have to convey trust. And maybe we all have to be a bit more normal you know.

And this is what I see when I go to the store, and this applies to all our staff, do not sell something to a person which doesn't fit that person. Of course, we need to pay attention.

Today, I met the CEO of TikTok. He's a young man, well, I don't know, he may be around 42, and he had a very tiny jacket. He was so lean, and so that's the reason for calling that type of luxury...gentle luxury, and this means living by measure.

I do not want to bore you, but in Greece...in ancient Greece, all people lived by measure, so storms were part of their life, so if there was a pandemic, this was part of their life. The Black Death killed thousands of people, and luxury needs education, needs gentleness, so we appreciate a lot the fact that

our customers buy a balanced number of items, and those who buy many things, well, they will no longer be with us in a couple of years. We have about 400,000 customers today, half of the Umbria inhabitants, and well, you do not need to be a billionaire to buy our garments, but if the collection is a contemporary collection, I don't think it will be impossible to double the number of customers in 5 years, 10 years, so if we have 800 customers in 5 years or 10 years, well, this would be great. I'm not joking, so we like customers to buy a few items, otherwise they get bored, and so balance is very important, measure is very important.

Then some final details on Casa Cucinelli in Rome. We will open by the end of September, October, and these Casa make us really very happy, and what do we do in this Casa? We organize events with journalists, with analysts, and in these Casa Cucinelli, you can even breathe a lifestyle, a way of living, and the places reflect our identity. I was talking with Massimo, well, if in Madison Avenue you have coffee and cappuccino, people may stay for a cup of cappuccino, for example.

And then to conclude, I'd like to repeat myself. Our keywords are elegance, rarity, exclusiveness, contemporary approach, and so do you remember the great Gatsby, which is set at around 1926-27 with a beautiful, young, refined garments, so we leave serenely and in a nice atmosphere.

Well, clearly, everything is easier, but this is a good moment. We have to focus on moral duty, and we have to drive growth, so that growth is well-balanced with a healthy profit, and this may make us a little bit better, and we may also contribute to improving the world, because this is our strategy. This company should survive for the following 300 years. I don't know whether this will be the case, but we will do our best.

So now its half past six, so we have time for discussion and for questions.
Thank you very much.